

## **TITLE : Lease vs. buy car: compare new car financing options to find the optimal**

When you lease a vehicle, you're basically renting it from the dealer for a certain length of time. That's usually 36 or 48 months. Once your lease period ends, you have the option of returning the vehicle to the dealer or purchasing it at a pre-determined amount, which is defined in the lease contract.

That's a lot different from buying a car. Buying it outright means you own it after the loan is paid off.

### **KEY TAKEAWAYS**

- The monthly payments for a lease are usually lower than for a loan.
- You're not building up any equity in the vehicle with those payments.
- You can buy the vehicle at the end of the lease for a pre-arranged price.

For decades now, a large proportion of luxury cars have been leased. But that has changed, with more compact cars, mainstream sedans, and small SUVs entering the new-car lease market, as well. Attractive finance rates have made some leases pretty good deals.

Automakers benefit by leasing a big portion of a car's production. Leases help keep used-car supplies steady, which in turn boosts resale values. A high resale value means a vehicle is slower to depreciate, which translates into cheaper leases for that model. That benefits consumers.

Furthermore, when customers return their car at lease-end, it gets those customers into the dealership in person. This is where the dealer has the

chance to move them into a new car, which an off-lease customer needs pronto. The low interest rates that have prevailed elsewhere for the past few years have carried over into lease contracts, which also helps moderate their cost. Interest rates are a critical part of the economics of leasing, because at the end of the day a lease is just another way to finance a car.

## Advantages and Disadvantages of Leasing

The major drawback of leasing is that you don't acquire any equity in the vehicle. It's a bit like renting an apartment. You make monthly payments but have no ownership claim to the property once the lease expires. In this case, it means you can't sell the car or trade it in to reduce the cost of your next vehicle.

However, there are advantages to leasing as well. They include:

### Lower Monthly Payments

If you're concerned about the monthly costs, a lease eases the burden a bit. Generally, the monthly payment is considerably less than it would be for a car loan. Some people even opt for a more luxurious car than they otherwise could afford.

### A New Car Every Few Years

For many people, there's nothing like the feeling of driving away in a brand new ride. If you're one of them, leasing may be the way to go. When the lease is up in a few years, you can return it and get your next new car.

### Worry-Free Maintenance

Many new cars offer a warranty that lasts at least three years. So when you take out a three-year lease, most of the repairs should be covered. Leasing arrangements largely eliminate the hazards of a significant unforeseen expense.<sup>2</sup>

### No Resale Worries

Are you the type of person who hates to haggle? If so, you probably hate the idea of selling your used car to a dealership or a private buyer. With a lease, you simply return the car. The only thing you have to worry about is paying any end-of-lease fees, including those for abnormal wear or additional mileage on the vehicle.<sup>2</sup>

### Maximizing Tax Deductions

If you use your car for business purposes, a lease will often afford you more tax write-offs than a loan. That's because the IRS allows you to deduct both the depreciation and the financing costs that are part of each monthly payment. If you're leasing a luxury automobile, the amount you can write off may be limited.

### BUYING:

#### Pros of Buying a car:

- You are the owner of the vehicle you are buying
- Your car has a resale value
- You can modify and upgrade your car in any way you want.
- You own the car for as long as you wish.
- You can drive your car as much as you want as there is no minimum mileage limit while reselling the car

#### Cons of Buying a car:

- You have to pay the entire amount at once using cash, loan or financing which also consists of negotiated costs including cash price/down payment, taxes, insurance plus registration fee.
- You have to take care of reselling or trading your old car on your own.
- Your car will depreciate over time.
- You have to pay for the oil changes, accidental damages and maintenance of the car from your pocket.
- You have to own the car for a long term for it to be cost-efficient.

If you tend to get emotionally attached to your cars and hope to own it for the long term, buying a car is the best option. If you are taking a company car, have a business, are a professional e.g. Doctor/CA/Lawyer or need a new vehicle for a period from 2 to 4 years or a second vehicle , leasing is the best option.

For some drivers, leasing or buying is purely a matter of dollars and cents. For others, it's more about forming an emotional connection to the car. Before choosing which road to go down, it's important to understand the key distinctions. When you lease a vehicle, you're basically renting it from the dealer for a certain length of time. That's usually 36 or 48 months. Once your lease period ends, you have the option of returning the vehicle to the dealer or purchasing it at a pre-determined amount, which is defined in the lease contract. That's a lot different from buying a car. Buying it outright means you own it after the loan is paid off. Lease payments are generally lower than the monthly loan payments for a new vehicle. Monthly car loan payments are calculated based on the sale price, the interest rate, and the number of months it will take to repay the loan. The major drawback of leasing is that you don't acquire any equity in the vehicle. It's a bit like renting an apartment. You make monthly payments but have no ownership

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Generally, the monthly payment is considerably less than it would be for a car loan. Some people even opt for a more luxurious car than they otherwise could afford. For many people, there's nothing like the feeling of driving away in a brand new ride. If you're one of them, leasing may be the way to go. When the lease is up in a few years, you can return it and get your next new car. Many new cars offer a warranty that lasts at least three years. So when you take out a three-year lease, most of the repairs should be covered. Leasing arrangements largely eliminate the hazards of a significant unforeseen expense. With a lease, you simply return the car. The only thing you have to worry about is paying any end-of-lease fees, including those for abnormal wear or additional mileage on the vehicle.